

# Company Analysis: PanJam Investment Limited (PJAM)

VMWM Research | July 09, 2020



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- Recommendation: **MARKETWEIGHT**
- Price Target: \$74.51
- Current Price: \$ 69.95<sup>1</sup>

- Shares Outstanding: 1,066,159,890 units
- Market Value of Shares Outstanding: \$74.26 billion<sup>1</sup>
- Financial Year End: December 31

## ABOUT THE COMPANY

PanJam Investments Ltd (PJAM) is an investment holding company incorporated and domiciled in Jamaica with its registered office located at 60 Knutsford Blvd, Kingston 5. It derives its income from the dividends, interest income and management fees earned from its subsidiaries. The subsidiaries and associated companies of PJAM operate within several industries including property management and development, food and beverage, life and health insurance, investment management and property investment.

The 30.22% ownership share of Sagicor Group Jamaica Ltd represents one of PanJam's most notable investments.

## FINANCIAL PERFORMANCE

	2015	2016	2017	2018	2019
<b>Operating Income (\$Bn)</b>	\$ 1.8	\$ 1.7	\$ 2.4	\$ 3.3	\$ 4.6
<b>Net Income (\$Bn)</b>	\$ 3.3	\$ 4.4	\$ 4.2	\$ 5.4	\$ 8.4
<b>Return on Average Assets (%)</b>		13.4%	11.5%	12.5%	16.6%
<b>Return on Average Equity (%)</b>		17.1%	14.7%	16.6%	21.7%
<b>Gross Return on Property (%)</b>	29.3%	25.7%	26.6%	25.6%	25.6%
<b>Return on Average Investments (%)</b>	6.9%	6.8%	9.6%	15.6%	22.1%

### Outlook

While PanJam's performance will be impacted in the short-term by the COVID pandemic, we hold a positive view of its performance in the medium to long-term. As the broader market lingers within bear market territory, we expect PanJam's investment results to be negatively impacted. We anticipate that management will continue to build its investment and property portfolio placing the company in a position for long-term success. This will allow for expansion of the PanJam's investment portfolios and for greater returns when market conditions improve.

### Projections and Valuations

A sum of parts approach was used to value PJAM. We valued the company's holding in Sagicor Group Jamaica Limited separately from its other operations and holdings. We used a residual income model for both valuations and then combined the two to arrive at a target price per share of **\$74.51** for PJAM.

### Risks to Price Target

Since a significant portion of the company's investment portfolio is concentrated in the local equity market, any prolonged economic downturn will certainly result in a more pessimistic outlook for PanJam than what we have catered for in our valuation assumptions. On the upside, a quicker than expected recovery of the equity markets and higher returns in the medium term will allow for better than expected performance.



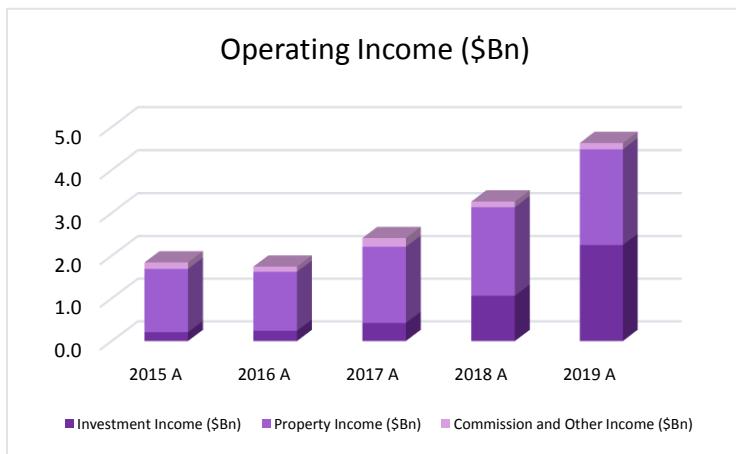
## FINANCIAL PERFORMANCE

	2015	2016	2017	2018	2019	2019 Q1	2020 Q1
<b>Operating Income (\$Bn)</b>	1.8	1.7	2.4	3.3	4.6	0.6	-0.2
<b>Net Income (\$Bn)</b>	3.3	4.4	4.2	5.4	8.4	0.9	0.0
<b>Return on Average Assets (%)</b>		13.4%	11.5%	12.5%	16.6%	8.3% <sup>2</sup>	0.1% <sup>2</sup>
<b>Return on Average Equity (%)</b>		17.1%	14.7%	16.6%	21.7%	11.0% <sup>2</sup>	0.1% <sup>2</sup>
<b>Gross Return on Property (%)</b>	29.3%	25.7%	26.6%	25.6%	25.6%	25.6% <sup>3</sup>	26.1% <sup>3</sup>
<b>Return on Average Investments (%)</b>	6.9%	6.8%	9.6%	15.6%	22.1%	15.2% <sup>3</sup>	8.7% <sup>3</sup>

<sup>2</sup> Returns are annualized

<sup>3</sup> Return for the last 4 quarters

## FOR THE LAST FIVE (5) YEARS:



Between 2015 and 2019, PanJam's Operating Income has increased by a compounded annual growth rate (CAGR) of 25.9% from \$1.8 billion to \$4.6 billion. Investment income, the main contributor to the growth, increased by a CAGR of 81.9% during the period as a result of the expansion of the company's investment portfolio. The company's holding of Interest-Bearing Assets increased by 302.5% during the period. The company also restructured its investment portfolio to take advantage of higher returns in other asset classes. In 2015, PJAM's portfolio consisted of 41% equities and 28% repos and deposits distributed mainly in the United States, Canada and the Caribbean. At the end of 2019, the investment portfolio

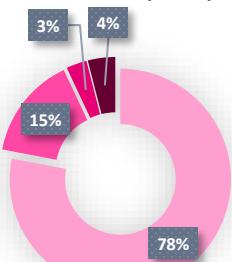
consisted of 80% equities and 13% repos and deposits. These securities were invested mainly in Jamaica (78%). The redistribution of assets was an effort by PJAM to reduce its foreign exchange exposure and take advantage of the high returns on the Jamaica Stock Exchange. The return on investment increased from 6.7% in 2015 to 22.0% in 2019.

Property Income grew by a CAGR of 10.7% as a result of increased occupancy and rental rates. During the period, the company opened the Marriott Courtyard Hotel in New Kingston, acquired the Oceana property in Downtown, Kingston and acquired 5 acres of property in Montego Bay. The two properties acquired are under construction and are scheduled to open in 2021.

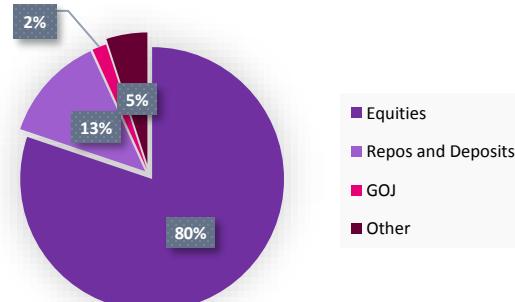
The company also invests in private and publicly listed companies. These companies span a diverse set of industries including insurance, consumer durables and business process outsourcing. During the period, PJAM divested its interest in Hardware and Lumber and Mavis Bank Coffee and purchased a 6.1% stake in JMMB, a 20% stake in Term Finance (Jamaica), a 25% stake in Williams Offices and a 15% stake in Outsourcing Management Limited (ItelBPO). Most notably, the company owns 30% of Sagicor Group Jamaica, a leading diversified financial group with its flagship business line being life and health insurance. The share of earnings received from its associated companies has increased by a CAGR of 11.6% from \$3.2 billion to \$5.0 billion, mainly due to growth in Sagicor's profits. The factors above culminated in Net Profit increasing by a CAGR of 26.6%. The Return on Average Assets which was 13.4% in 2015 climbed to 16.6% in 2019, while the Return on Average Equity grew from 17.1% to 21.7%.



Investment Assets: Geographical Location (2019)



Investment Assets: Asset Type (2019)



Total Assets increased from \$28.0 billion to \$54.4 billion or by 94.6% over the review period, attributable to increases in Investment Securities by 366.8%, Investment Properties by 73.8% and Investments in Associated Companies by 74.8%. The increase in the PJAM's asset base was funded in part by a through reinvested profits, realizing a 95.0% increase in Total Equity, which came on the back of a 119.4% increase in Retained Earnings and a 114.3% increase in Investment and Other Reserves from the revaluation of investment securities. Liabilities increased at a slightly slower pace, rising 93.3%, attributable to the increase in Loan Liabilities from \$5.2 billion to \$9.3 billion, which culminated in a decline in the company's Long-Term Debt to Equity ratio from 23.7% to 21.9%. Notably, the company refinanced its loans to replace USD denominated debt with JMD denominated debt to reduce foreign exchange exposure. However, the refinancing led to an increase in the average interest cost of the company's debt.

#### FOR THE FIRST THREE (3) MONTHS OF 2020:

PanJam's results for this quarter were subpar in comparison to the same quarter last year. For the quarter, the Company incurred an operating loss of \$654.8 million versus last year's profit of \$190.1 million profit. This was primarily as a result of a \$1.1 billion loss on investments for the quarter in comparison to a \$94.1 million investment gain last year. Additionally, a 10.2% increase in operating expenses, a net impairment loss on \$10.1 million versus an impairment recovery of \$8.2 million last year, and a 34.3% decrease in the Share of Results from Associated Companies negatively contributed the company's profitability. However, these negative effects were partially offset by a 13.4% increase in Property Income and a \$331.1 million increase in Other Income. PJAM also benefitted from reduced finance costs as a result of debt reduction which occurred last year. The Company incurred a Loss before taxation of \$216.5 million, but, a \$228.5 million tax benefit brought the company back into the green with a Net Profit of \$12.0 million.

Quarter-over-quarter Total Assets increased by 19.0%, from \$47.3 billion to \$57.2 billion. The increase came mainly from interest bearing assets namely, Financial Assets at Fair Value through Other Comprehensive Income which increased from \$778.2 million to \$4.1 billion, and Securities Purchased Under Agreements To Resell that increased from \$484.8 million to \$1.5 billion. The company utilized the depressed prices of assets on the local and international markets to build its portfolios. Total Equity increased by 15.2% from \$35.5 billion to \$40.9 billion. This was largely due to a 22.6% increase in Retained Earnings from the income earned over the period. Total Liabilities increased by 30.6% due to an additional \$3.1 billion in loans taken during the period. The loans were used to fund the purchase of investment securities. This culminated in the company's Long-term Debt to Equity ratio increasing from 29.8% to 33.6%.



## OUTLOOK:

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### **Sub-Par Performance This Year from the Fall off In the Financial Markets**

The company's investment portfolio is concentrated in the local equity market, particularly in financial sector companies. PJAM has not been spared from the broader market rout, with their year-to-date return on average investment coming in at 38.9% as of March 31st. We expect that the local equities market will maintain its bear market trajectory and close the year between 25% and 50% lower than the start of the year. The decrease in prices will negatively impact the company's investment results from the increase in unrealized losses. These substantial negative returns may result in a net loss during the period. However, there should be no direct impact on PJAM's Cash Flows as most of this income is non-cash. The equity market will likely return to pre-COVID levels in the medium-term, though recovery is likely to be slow. Therefore, we expect the average Return on Investments in the short to medium-term to be lower than in recent years.

### **Commercial Property Income to Remain Stable**

The property portfolio is concentrated in commercial real estate, though, the company does manage hotels in Miami and New Kingston. The short-term demand for commercial real estate is expected to decrease due to the work from home orders issued by the government. As persons physically return to work, this demand should return. Additionally, as the country begins to reopen, tenants will likely see some recovery in revenue and therefore be in a better position to pay rent. While some companies may make a permanent shift to remote work for some of its staff, we expect that in the long-term companies that require some physical location will sustain the demand for commercial real estate.

As it relates to PJAM's hotel assets, traffic should increase, albeit at a slow pace as border restrictions relax. In the short-term, hotel bookings should remain low as individuals may still fear contracting the disease and travel remains subdued due to testing capacity and other protocols. Overall, PJAM's occupancy for the next 2 - 3 years is expected to be lower than in recent years. The properties that are supposed to open in 2021 should provide additional revenue but will likely perform well below initial expectations.

### **Assets May Have to be Liquidated in the Short-Run to Fund Operations in The Short-Run**

The BOJ has paused the payment of dividends by financial-holding companies during 2020 in order to maintain liquidity in the financial system. These DTIs can only pay dividends to minority shareholders, holding 1% of the company or less. PJAM is likely to not receive dividend payments this year from SJ, which represents a large percentage of its dividend income, therefore its cash inflow will be reduced. When coupled with the weakness in other areas of the business, PJAM will be more reliant on its liquid reserves to support operations than in recent years.

## INVESTMENTS POSITIVES:

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- Reduced US dollar debt exposure
- Strong and experienced management team
- The current downturn in economic activity and financial markets is likely to present opportunities for additional investments

## INVESTMENT NEGATIVES

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- Investments are concentrated in Jamaica and is thus largely exposed to downturns in the local economy
- Typically operates with a relatively small amount of cash on hand
- The company's investments are exposed to the tourism sector, which is among the most affected by the Covid-19 pandemic



## CONCLUSION

PJAM has exhibited impressive growth over the past few years, due to the investment decisions made by management. In the short to medium-term, we expect that the performance of the financial markets and COVID related restrictions will negatively impact PJAM's results.

Taking into consideration the current operating environment and the state of the local economy, we used a sum of the parts valuation approach to determine a target price for PJAM. Separating PJAM's investment in Sagicor Jamaica from its other operations, we used a Residual Income model to value each segment. In combining the values for each segment, we arrived at a target price for PJAM of \$74.51 per share which represents a 6.9% upside from current levels. We therefore recommend that investors **MARKETWEIGHT** this stock.

## SOURCES

The Jamaica Stock Exchange, PanJam Investments Limited Annual Reports and Quarterly Financials.

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## DEFINITIONS

- **OVERWEIGHT** – More than 10% price appreciation anticipated (Higher weight in your portfolio relative to the market)
- **MARKET WEIGHT** – Price expected to fluctuate between 10% on the upside or downside (Similar weight in your portfolio relative to the market)
- **UNDER WEIGHT** – Price expected to decline by more than 10% (Lower weight in your portfolio relative to the market)
- **ZERO WEIGHT** – Do not hold this stock